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SUBJECT: CLOGGED AQABA PORT CONTRACTED TO PRIVATE MANAGEMENT COMPANY

Classified By: DCM DAVID HALE, FOR REASONS 1.5 (B) AND (D)

11. (SBU) SUMMARY: The GOJ has awarded a two-year contract for management of Aqaba,s congested container port to international port operator A.P. Moller over the objections of some members of parliament and the port workers, union. The award is good news for Jordanian industries dependent on foreign inputs and for the transit trade to Iraq, which is critical to Iraq,s reconstruction but also a primary cause of port congestion. Even if the container port,s problems are solved, however, other possible bottlenecks to the flow of goods and reconstruction supplies to Iraq may need to be monitored. END SUMMARY.

12. (SBU/NF) On March 8, the Aqaba Development Corporation (ADC) and Aqaba Port Authority (APA) signed a contract with Danish port managing company A.P. Moller Terminal (APM), giving it the management of Aqaba,s heavily overcrowded container port. APM, a subsidiary of the Maersk conglomerate, won a tender that attracted eight offers for a two-year port management contract with the option of a 25-year follow-on partnership contract. According to the USAID-contracted consultants who arranged and helped adjudicate the tender, only one U.S.-based port operator, CSX, participated in the tender, and it placed no higher than the middle tier of offers. The consultants said that APM outbid Hong Kong-based Hutchinson Port Holdings and P&O, its two closest competitors, on the basis of its better offer on terms of payment and its relevant experience managing ports in the region, at Salalah and Port Said.

13. (SBU) While handing over a state-run operation to a private management company is consonant with the thrust of Jordan,s economic policy over the past five years, it was not without controversy. The change came as a direct result of a specific set of circumstances: the meteoric rise in incoming container and Ro-Ro (roll-on, roll-off; i.e., vehicle) transshipments through Jordan to Iraq after the war. From April 2003 to December 2003, traffic through the container port almost doubled, which many had predicted but few had planned for, and the port has to date been unable to handle the enormous increase in volume. The increased trade created a bottleneck at the container port so serious that in mid-September, the Jordan Shipping Agents Association imposed and then increased a surcharge on ships unloading at Aqaba container port that now amounts to \$300 per 20-foot container for ships arriving from Asia and \$475 for ships arriving from Europe and the United States. At that time, the waiting period for a ship to be unloaded was less than a week; by December, it was up to ten to 14 days.

14. (SBU) Adding to the bottleneck, according to APA Chairman Saud Sroor, was the enormous number of automobiles pouring into Jordan en route Iraq, which had just seen the removal of a very large tariff on automobiles. The number of incoming cars peaked at over 35,000 in May 2003 and then peaked again in the autumn as container traffic was also coming to a peak, amounting to well over 20,000 each month throughout the autumn of 2003 vs. an average of around 7500 per month during the previous autumn. The vehicular traffic has since declined significantly.

15. (SBU/NF) The fact that the container port lacks computers and is run on an index-card system did not help matters. Also, for the first time, food for the UN-sponsored Oil-for-Food program came in containers, and this had to be unpacked and sorted at the port, Sroor told us. Despite the conditions of overcrowding, which made the port more difficult to operate, productivity in cargo handling increased by 26% over 2002, Sroor said. A \$24 million investment in port handling equipment in October helped. We have been unable to get a reasonable explanation why the government did not provide more resources to the port earlier on, so that productivity could be ramped up to match the increased traffic to Iraq. Sroor, who is in charge of all three of Aqaba,s ports ) the main port, industrial port, and container port )maintains that he is happy that the tender was awarded and will support A.P. Moller.

16. (SBU) The new operator will have a short time to meet stringent targets set out by ADC: after three months in

operation, APM must have made substantial strides in installing automation into the operations of the port and have cleared up congestion to such a degree that the container surcharge is removed. This should prove challenging to APM, although Sroor claimed that the port is already well on the way to getting the surcharge removed without the help of a manager. According to Sroor, the port has already reduced the average waiting time to 2-3 days for ships wanting to unload cargo; the Jordan Shipping Agents Association will remove the current surcharge after two full weeks in which the waiting period for these ships is less than 24 hours. After six months, Sroor said, the port must be operating at an "international standard," and APM will be expected to maintain this high level of performance throughout the rest of the two-year contract in order to extend their management of the port.

17. (SBU) The problems APM will face at the port are substantial but not insurmountable. According to the terms of the contract and assuming that APM would be able to secure the follow-on agreement, APM will turn over about \$700 million to the Aqaba Development Corporation over the next five years. The tender has faced the vociferous opposition of the Jordanian Ports and Clearance Workers, Association, which claims that the "privatization" of the port will result in massive job losses, and APM actions on personnel over the next few years are likely to be constrained by the necessity to tread lightly in this area. Sroor believes, however, that the old age of the majority of port workers will allow the downsizing of the port staff to happen gracefully by attrition, as "most" of the permanent port employees would likely retire "within the next five years."

17. (C/NF) There has been predictable resistance from Parliament to the introduction of a foreign corporation as concessionaire of Aqaba, s "crown jewel," the most active component of a port that employs 4,700 Jordanians, primarily from the underemployed and politically overrepresented south of Jordan. ADC has been able to counter parliamentary pressure on the subject by applying a two-track strategy: first, denying that the contract is in fact a concession, and second, accurately portraying the crisis atmosphere surrounding the container port. A delegation of MPs passing through Aqaba in late January was treated to a tour of the container port, s full-to-bursting storage yards and then an hours-long presentation by Imad Fakhoury, Chairman of the ADC, on how the pending contract was only for two years, management of the port, full stop. (COMMENT: Fakhoury, s statement notwithstanding, APM will be awarded the long-term concession that is the follow-on to the management contract without any further tender if it is able to meet its performance targets. END COMMENT.)

18. (SBU/NF) COMMENT: The quick tendering to an internationally respected firm of a management contract for the Aqaba container port would be a positive step under any circumstances. Under the current circumstances of massive congestion at a time when demand for use of the port for transshipment of goods to Iraq is at an all-time high, the entrance of APM is very good news. Sroor points out that a high proportion of reconstruction-related items is likely to be heavy equipment (unloaded in the as-yet-uncongested main port rather than the container port). If so, the conditions at the main port ) which will not be under APM, s authority ) will bear further monitoring. The resolution of problems in the port is also likely to expose inadequacies and bottlenecks further downstream in the customs-clearing process or in the supply of suitable vehicles to truck supplies north to Amman and Iraq.

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